

Board of National Estimates

7 November 1951

Assistant Director, Research and Reports

Proposed technique for measuring the contribution of East-West trade to the relative economic capabilities for war of the Soviet Orbit and the rest of the world. (See attached terms of reference for an NIE on this subject.)

In preparing our NIE contribution, ORR intends to utilize a method which goes beyond those ordinarily used in estimating the damage that could be done to the Soviet Orbit by restricting its imports from outside the Orbit. This method does not limit its concern to the immediate impact of the loss of imports, but proposes to trace the ramifications in the economy of the Soviet Bloc of the loss of these vital commodities.

Previous studies have concentrated attention almost solely on items held to be strategic because of great replacement difficulties (the "bottleneck" approach). This produces an upward bias in estimates of the damage which could be inflicted on the Soviet Orbit by depriving them of their imports, for it fails to consider adequately the ability of the Soviets to produce or find substitutes for the lost items.

The method which we shall use assumes that these items can be replaced, where technically feasible, by reallocation of resources, involving significantly higher costs of production. The loss of these imports would not necessarily result in a marked reduction of output in all the products which use the imports. Much of the damage suffered by the Soviets would be diffused throughout the economy of the Orbit.

We propose to measure this diffused damage to economic capability for war by determining the amounts of the most basic economic resources required to replace the lost items by domestic production. The direct damage that would result from the loss of items which could not be replaced by domestic production (except at excessive cost) would be measured by the methods used in past studies. (We believe that these irreplaceable items would be relatively few in number.) The estimate of total damage then would be expressed quantitatively as the loss of resources (diffused damage) plus the direct damage. This statement of the damage to the Soviet Orbit from the loss of its imports is, we believe, an

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estimate of strategic damage (i.e. damage to the economic capabilities for war of the Soviet Orbit). This is true in the degree that the following assumption is true: the overall objective of the Soviet leaders is the maximization of Soviet military potential, and subordinate objectives are determined by reference to this fundamental goal. On this assumption, the loss of basic resources and of high-priority goods (eg. present imports) represents "strategic damage" to the Soviet Orbit.

The estimate of the total damage which will be made in this study could conceivably be translated into a reduction of Soviet military power by military experts; we do not intend to undertake this estimate of military damage.

We believe that a similar technique should be applied in estimating the contribution of East-West trade to the economies of non-Orbit countries and to their collective economic capability for war. (This analysis will be done outside OHR.)

Our tentative assumption is, however, that the estimate of economic damage to the West does not entirely represent "strategic damage," while the economic damage to the Orbit is, on our assumption, wholly "strategic damage." For this reason, the estimates of damage to the Orbit and damage to the non-Orbit area are not directly comparable. The damage to the non-Orbit area is, in a sense, the "cost" of inflicting a certain amount of strategic damage on the Soviet Orbit.

There are of course many gaps in our knowledge of Orbit economic activity and many other limitations to our ability to estimate the damage which the Orbit would suffer from reductions in East-West trade. Though fewer in number, there are likewise gaps in the ability of the IAC agencies to estimate the impact upon the West of reductions in this trade. Nevertheless, we believe that a sufficient body of knowledge exists to formulate estimates within the frame of the technique we intend to use which will serve to indicate the total effect upon the Orbit and upon the West.

The terms of reference for the NIE have been drawn up on the assumption that this technique is valid and workable. In brief, our approach is as follows: We should be able with reasonable precision to predict the levels and pattern of East-West trade in 1952. Using this pattern as a base, we intend to estimate the impact on the Orbit of a complete embargo on

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East-West trade. Similarly, we shall estimate the impact of selective embargoes. A similar technique should be used by the IAC agencies in estimating the impact on non-Orbit countries. Comparing the results of these independent analyses should give us quantitative measures of the relative contribution of East-West trade to the economic capabilities for war of the Orbit and the non-Orbit areas.

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Encl:

Terms of reference

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